

HOUSE BILL REPORT

HB 1825

As Reported by House Committee On:
Higher Education

Title: An act relating to providing a source of funding for customized work force training.

Brief Description: Providing a source of funding for customized work force training.

Sponsors: Representatives Kilmer, Skinner, Pettigrew, Haler, Wallace, Kenney, Clibborn, Jarrett, Morrell, Hankins, P. Sullivan, Buri, McCoy, Linville, Grant, Blake, Kessler, Simpson, Conway, Rodne and Kagi.

Brief History:

Committee Activity:

Higher Education: 2/17/05, 3/1/05 [DPS].

Brief Summary of Substitute Bill

- Creates the Washington Customized Employment Training program for employers locating or expanding in Washington.
- Expands the authority of the Washington Economic Development Finance Authority to issue bonds.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 13 members: Representatives Kenney, Chair; Sells, Vice Chair; Cox, Ranking Minority Member; Rodne, Assistant Ranking Minority Member; Buri, Dunn, Fromhold, Hasegawa, Jarrett, Ormsby, Priest, Roberts and Sommers.

Staff: Sydney Forrester (786-7120).

Background:

A 2003 survey by the Workforce Training and Education Coordinating Board (Board) found that 45 percent of employers attempting to hire had difficulty finding qualified job applicants in the previous 12 months. More than 67 percent of employers who tried to find job applicants with a vocational degree or certificate from a community or technical college or private career school had difficulty finding such workers. The Board found that employers believe skill shortages are hurting the economy by limiting business expansion, lowering

productivity, and reducing product quality, yet businesses often lack the incentives and resources to provide training.

The Washington Competitiveness Council (Council) has recommended the acceleration of worker training in high-demand fields for new workers, incumbent workers, and displaced workers. The Council advocates an increase in capacity to provide customized training for business recruitment or expansion.

The Washington Job Skills Program is a customized training program that matches employer investments in on-the-job training, but it is among the smallest customized training programs in the nation. Customized training has been funded elsewhere using a bonding mechanism which pays off the bonds over time using a portion of the participating companies' tax payments. The State of Iowa has four customized training programs with yearly funding amounts of over \$40 million. Their customized training program that uses a bonding mechanism has averaged over \$10 million per year in training expenditures and over 3,000 jobs created per year since its inception in 1983.

The Washington Economic Development Finance Authority (WEDFA) was established by the Legislature in 1989 as an independent agency within the executive branch of the state government for the purpose of developing innovative approaches to the problem of unmet capital needs by Washington businesses. The WEDFA is authorized to issue nonrecourse economic development bonds. There is no governmental financial support for the bonds issued and its staffing and other operational expenses are paid through fee income derived from its bond issuance programs. The WEDFA's authority to issue bonds expires June 30, 2006. Article 32, section 1, of the State Constitution prohibits the issuance of nonrecourse revenue bonds or obligations that are payable from or secured by any tax funds or governmental revenue.

Summary of Substitute Bill:

The Washington Customized Employment Training program is created for employers locating or expanding in the state. The State Board for Community and Technical Colleges (SBCTC) will administer the program. Training grants may be awarded to employers who have entered into training agreements with a state community or technical college or a licensed private vocational college.

The WEDFA may issue bonds to finance customized training program costs. The WEDFA must establish a separate and identifiable account to receive and disburse funds for the payment of bonds issued. The bonds are payable solely from the account established by the WEDFA and are not obligations of the state. The WEDFA must enter into agreements with participating employers to ensure payment of program costs and bond obligations.

Participating employers are granted exemptions from business and occupation (B&O) taxes and public utility taxes and must agree to: (1) reimburse the training institution for one-half the cost of training; (2) make deposits into the WEDFA account in an amount equal to the

amounts of the B&O tax and public utility tax from which the employer is exempt under the program; and (3) make other payments sufficient to cover the costs associated with issuing the bonds. Employers also must agree to increase their employment in the state by an amount equal to at least 75 percent of the number of trainees in their training program.

The date for the expiration of the WEDFA's authority to issue bonds is removed. The Director of the SBCTC is added as a member of the WEDFA and the Director of the Department of Agriculture is removed.

Substitute Bill Compared to Original Bill:

The substitute bill creates exemptions from the B&O taxes and public utility taxes for participating employers. Employers are required to deposit into a separate WEDFA account an amount equal to the amount of the tax exemption. The original bill provided that a participating employer's B&O taxes and public utility taxes would be deposited directly into an account in the custody of the State Treasurer from which the bond costs would be paid.

The substitute bill directs the Department of Revenue to deposit into the public works assistance account an amount equal to the amount of the public utility tax exemptions granted to employers participating in the training program. No similar provision was included in the original bill.

The substitute bill includes private licensed vocational schools in the qualified training institutions. The original bill included only public community and technical colleges.

The original bill did not remove from current statute the June 30, 2006, expiration date for the WEDFA's authority to issue bonds.

Appropriation: None.

Fiscal Note: Requested on March 2, 2005.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The focus of this bill is on developing training programs to produce skilled workers and to improve the economy of Washington. The state ranks toward the bottom of investments in worker training. It is difficult to recruit employers to the state if trained, skilled workers are not available. This is a start toward remedying that problem. The training would be limited to new employers, so the taxes can be earmarked for the payment of the bonds.

States who are successful in economic development are those who recognize the importance of work force development. This is where the rubber hits the road in terms of economic development. It would provide a tool for employers to expand and upscale their work force. This program would allow the state to attract new employers and provide needed services to existing businesses. This bonding authority does not impact the state's bonding cap.

This is a proposal to encourage economic and work force development in Washington. There is a good deal of precedence for this type of job skills program and it would give employers lots of options. We would suggest a friendly amendment allowing the licensed private vocational schools also to be permitted to participate in the training program.

Testimony Against: None.

Persons Testifying: Representative Kilmer, prime sponsor; Mike Hudson, Association of Washington Business; Gena Wikstrom, Washington Federation of Private Career Schools and Colleges; Carolyn Cummins, State Board for Community and Technical Colleges; and Wes Pruitt, Workforce Training and Education Coordinating Board.

Persons Signed In To Testify But Not Testifying: None.